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SUBJECT: SINGAPORE FOURTH QUARTER GDP DOWN, BUT RECOVERY ON TRACK

REF: 09 SINGAPORE 994

¶1. Summary: Singapore's economy shrank 6.8 percent in the fourth quarter of 2009 compared to the previous quarter, and recorded a 2.1 percent contraction for the year. The quarterly fall was more than expected but is being chalked up more to a temporary decline in the biomedical sector and a pullback from rapid expansion in production seen during the previous two quarters, rather than as a faltering in the economy's recovery. Most other manufacturing and services sectors continued to show positive if moderate growth. Prospects for 2010 are much brighter as export demand continues to recover. Services are expected to get a boost from two massive new casinos preparing to open early in the year. The government is expected to continue fiscal stimulus measures in its next budget to be introduced next month, though the central bank will likely begin to pull back the reins on the economy as inflation concerns creep back.

End Summary.

2009 Out With a Whimper

¶2. Singapore's Ministry of Trade and Industry (MTI) released advance estimates of fourth quarter GDP January 4 (and previewed by the Prime Minister in a New Years Eve speech) showing a greater than expected contraction of 6.8 percent quarter-on-quarter. Analysts were unsurprised that the economy pulled back in the last quarter after a blistering pace of recovery in manufacturing in the second and third quarters (reftel) and weaker industrial production figures in the past few months. Despite the slowdown, the quarter was up 3.5% compared to the same quarter last year when the economic crisis began to bite. For the year the economy shrank 2.1%, one of Singapore's worst yearly performances but far better than predictions made earlier in the year that had ranged as low as negative ten percent.

¶3. MTI pinned the decline on a sharp backsliding in manufacturing (down 38.4%), particularly in the biomedical and transport engineering sectors. Pharmaceutical production in Singapore is notoriously volatile and according to JP Morgan estimates production fell 90 percent during the last quarter. However, other manufacturing sectors continue to show recovery, particularly electronics which is a major source of employment in Singapore. Services expanded moderately at 7.2% quarter-on-quarter and construction picked up 4.3%.

2010 Prospects Looking Up

¶4. MTI did not adjust its previous forecast for 3-5% growth in 2010, but most local analysts continue to be more optimistic and see growth hitting over 5% for the year. Singapore's exports, a sizable part of its economy, are expected to continue an upward trend as the rest of the world pulls out of recession. Tourism and related services should pick up as Singapore's two new "integrated resorts", which include hotel, convention space, entertainment areas, and most importantly casinos, open during the first half of the year. The

next government budget due in February should also continue fiscal stimulus measures to support the ongoing recovery.

15. Most analysts in Singapore believe the Monetary Authority of Singapore (MAS), Singapore's central bank, is likely to begin to pull back the reins on the economy at its next policy meeting in April. The MAS will move back to a gradual and modest appreciation of the Singapore dollar, making its exports less competitive while helping to keep prices lower to guard against a potential return of inflation. Inflation is still negative, but MAS recently revised upward its inflation forecast to 2.5-3.5% for 2010 on the back of predictions of higher food, energy and housing costs.

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